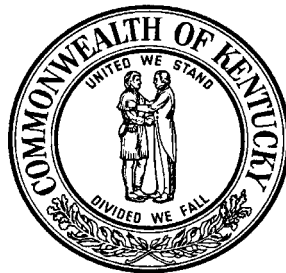


**REPORT OF THE AUDIT OF THE
CLINTON COUNTY
SHERIFF'S SETTLEMENT - 2003 TAXES**

July 3, 2004



**Crit Luallen
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
CLINTON COUNTY
SHERIFF'S SETTLEMENT - 2003 TAXES**

July 3, 2004

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2003 Taxes for the former Clinton County Sheriff as of July 3, 2004. We have issued a qualified opinion on the financial statement taken as a whole. Based upon the audit work performed, except for the effects of any matters that might have been disclosed if we had been provided management representations and legal representations, the financial statement is presented fairly in all material respects.

Financial Condition:

The former Sheriff collected taxes of \$1,890,979 for the districts for taxes, retaining commissions of \$78,133 to operate the Sheriff's office. The former Sheriff distributed taxes of \$1,777,214 to the districts for 2003 Taxes. Taxes of \$34,580 are due to the school district from the former Sheriff.

Report Comments:

- The Former Sheriff Had A \$40,420 Deficit In His Tax Account
- The Current Sheriff Should Deposit Money Received For Restitution In Escrow Account
- The Former Sheriff Should Not Have A Shortage In His 2003 Tax Account
- The Sheriff Should Remit \$60,604 To The Taxing Districts
- The Former Sheriff Should Have Distributed Tax Collections By The Tenth Of Each Month
- The Former Sheriff Should Have Invested Tax Collections In Interest-Bearing Account
- The Former Sheriff Should Have Deposited Funds Intact On A Daily Basis
- The Former Sheriff Should Have Recorded All Tax Collections In Receipts Ledger
- The Former Sheriff Should Have Prepared Tax Settlement By September 1
- The Former Sheriff Should Have Published Settlement
- The Former Sheriff Should Have Transferred Any Delinquent Franchise Tax Bills To County Clerk
- The Former Sheriff Should Have Prepared Monthly Bank Reconciliations
- The Former Sheriff Should Not Have Applied Or Used Any Money Received By Him For Any Purpose Other Than That For Which The Money Was Paid Or Collected
- The Former Sheriff Should Have Obtained Proper Bonds
- The Former Sheriff's Office Lacked Adequate Segregation Of Duties
- The Former Sheriff Should Have Improved Recordkeeping Procedures
- The Former Sheriff Should Have Had Computer Disaster Recovery/Contingency Plans
- The Person Operating The Computer System Should Have Had Adequate Training

EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE CLINTON COUNTY
SHERIFF'S SETTLEMENT - 2003 TAXES
July 3, 2004
(Continued)

Litigation:

- On July 21, 2000, Clinton County legal counsel, on behalf of the Clinton County Fiscal Court and Clinton County Taxing Districts, filed a lawsuit in Franklin Circuit Court against former Clinton County Sheriff Kay Riddle and his bonding companies, Great American Insurance Company and United Pacific Insurance Company. This lawsuit sought to recover \$58,797 owed the Clinton County Fiscal Court and Clinton County Taxing Districts per audit reports for Sheriff's Settlement - 1997 Taxes and Sheriff's Settlement - 1998 Taxes. However, as of July 3, 2004, the former Sheriff had paid the following amounts included in the \$58,797: \$227 to the Kentucky State Treasurer and \$28,807 to the Clinton County Board of Education. In August 2004, this lawsuit was "settled by a compromise agreement reached among the parties. Under the terms of that agreement, Kay Riddle and one of his bonding companies, Great American Insurance Company, paid \$74,938 to the Clinton County Fiscal Court for itself and other specified taxing districts in Clinton County. The total figure included outstanding taxes from 1997 and 1998, plus interest and penalties on those amounts through August 31, 2004. The Fiscal Court also recovered certain court costs." The Clinton County Treasurer has properly distributed the settlement proceeds to the taxing districts.
- On December 11, 2000, legal counsel on behalf of the former Clinton County Sheriff filed a lawsuit in Clinton Circuit Court against the former Clinton County Judge/Executive in her official capacity. On January 6, 2003, the lawsuit transferred against the new Clinton County Judge/Executive in his official capacity. This lawsuit seeks to recover \$53,814 due from the Clinton County Fiscal Court per audit report for Clinton County Sheriff - Calendar Year 1999. These funds represent Sheriff's salary, employer's share of FICA, and unemployment insurance contributions. The suit's outcome cannot be predicted at this time.
- On November 5, 2004, Clinton County legal counsel, on behalf of the Clinton County Fiscal Court and Clinton County Taxing Districts, filed a lawsuit in Clinton Circuit Court against former Clinton County Sheriff Kay Riddle and his bonding company, Ohio Casualty Insurance Company. This lawsuit seeks to recover \$78,951 owed the Clinton County Fiscal Court and Clinton County Taxing Districts per audit reports for Sheriff's Settlement - 2001 Taxes and Sheriff's Settlement - 2002 Taxes. In addition, this lawsuit seeks to recover \$42,403 owed the Clinton County Fiscal Court in excess fees per the audit report for Clinton County Sheriff For The Year Ended December 31, 2002. However, in April 2004, the former Sheriff paid the following amount included in the \$78,951: \$52,464 to the Clinton County Board of Education. The suit's outcome cannot be predicted at this time.

Deposits:

The former Sheriff's deposits were insured and collateralized by bank securities.

Restitution:

On February 22, 2005, Cynthia Moreland, former Sheriff's office manager, plead guilty to four counts of theft. The Clinton County Circuit Court ordered restitution of \$45,159 to be paid through the Circuit Court Clerk with an initial payment of \$10,000 and monthly payments of \$200 with the entire balance to be paid in full within five years. As of August 18, 2005, the Clinton Circuit Court Clerk has collected \$11,000 from Ms. Moreland on the court ordered restitution of \$45,159 and has paid this money over to the current Clinton County Sheriff, Ricky Riddle. \$11,500 of the restitution is for 2002 taxes and 2003 taxes in the amounts of \$7,800 and \$3,700, respectively.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Donnie McWhorter, Clinton County Judge/Executive

Honorable Kay Riddle, Former Clinton County Sheriff

Honorable Ricky Riddle, Clinton County Sheriff

Members of the Clinton County Fiscal Court

Independent Auditor's Report

We have audited the Clinton County Sheriff's Settlement - 2003 Taxes as of July 3, 2004. This tax settlement is the responsibility of the former Clinton County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

Except as discussed in the fourth paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The former Clinton County Sheriff, Kay Riddle, did not return management representations to us. In addition, the Sheriff's legal counsel did not provide us with a legal representation letter. Management representations and legal representations are required by auditing standards generally accepted in the United States of America.



To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Donnie McWhorter, Clinton County Judge/Executive

Honorable Kay Riddle, Former Clinton County Sheriff

Honorable Ricky Riddle, Clinton County Sheriff

Members of the Clinton County Fiscal Court

In our opinion, except for the effects of any matters that might have been disclosed if we had been provided management representations and legal representations, the accompanying financial statement referred to above presents fairly, in all material respects, the former Clinton County Sheriff's taxes charged, credited, and paid as of July 3, 2004, in conformity with the modified cash basis of accounting.

The schedule of excess of liabilities over assets is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to auditing procedures applied in the audit of the financial statement and, in our opinion, except for the effects of any matters that might have been disclosed if we had been provided management representation letters and legal representation letters, is fairly stated, in all material respects, in relation to the financial statement taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated August 18, 2005, on our consideration of the former Clinton County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Former Sheriff Had A \$40,420 Deficit In His Tax Account
- The Current Sheriff Should Deposit Money Received For Restitution In Escrow Account
- The Former Sheriff Should Not Have A Shortage In His 2003 Tax Account
- The Former Sheriff Should Remit \$60,604 To The Taxing Districts
- The Former Sheriff Should Have Distributed Tax Collections By The Tenth Of Each Month
- The Former Sheriff Should Have Invested Tax Collections In Interest-Bearing Account
- The Former Sheriff Should Have Deposited Funds Intact On A Daily Basis
- The Former Sheriff Should Have Recorded All Tax Collections In Receipts Ledger
- The Former Sheriff Should Have Prepared Tax Settlement By September 1
- The Former Sheriff Should Have Published Settlement
- The Former Sheriff Should Have Transferred Any Delinquent Franchise Tax Bills To County Clerk
- The Former Sheriff Should Have Prepared Monthly Bank Reconciliations
- The Former Sheriff Should Not Have Applied Or Used Any Money Received By Him For Any Purpose Other Than That For Which The Money Was Paid Or Collected
- The Former Sheriff Should Have Obtained Proper Bonds

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Donnie McWhorter, Clinton County Judge/Executive

Honorable Kay Riddle, Former Clinton County Sheriff

Honorable Ricky Riddle, Clinton County Sheriff

Members of the Clinton County Fiscal Court

- The Former Sheriff's Office Lacked Adequate Segregation Of Duties
- The Former Sheriff Should Have Improved Recordkeeping Procedures
- The Former Sheriff Should Have Had Computer Disaster Recovery/Contingency Plans
- The Person Operating The Computer System Should Have Had Adequate Training

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen

Auditor of Public Accounts

Audit fieldwork completed -

August 18, 2005

CLINTON COUNTY
KAY RIDDLE, FORMER COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2003 TAXES

July 3, 2004

	County Taxes	Special Taxing Districts	School Taxes	State Taxes
<u>Charges</u>				
Real Estate	\$ 139,139	\$ 186,347	\$ 993,852	\$ 330,456
Tangible Personal Property	14,636	13,623	75,057	79,425
Intangible Personal Property				3,178
Fire Protection	983			
Increases Through Exonerations	68	91	487	162
Franchise Corporation	24,042	22,158	125,851	
2002 Bills Charged to 2003 Tax Year	197	225	1,281	764
Oil and Gas Property Taxes	1,274	1,707	9,102	3,026
Limestone, Sand, and Mineral Reserves	44	58	309	103
Penalties	1,505	1,786	9,801	2,681
Adjusted to Sheriff's Receipt		11	45	1
Gross Chargeable to Sheriff	<u>\$ 181,888</u>	<u>\$ 226,006</u>	<u>\$ 1,215,785</u>	<u>\$ 419,796</u>
<u>Credits</u>				
Exonerations	\$ 1,532	\$ 2,033	\$ 10,849	\$ 4,111
Discounts	2,373	3,050	16,311	6,479
Delinquents:				
Real Estate	7,282	9,709	51,780	17,217
Tangible Personal Property	402	374	2,061	1,862
Intangible Personal Property				81
Uncollected Franchise	<u>1,829</u>	<u>1,965</u>	<u>11,196</u>	
Total Credits	<u>\$ 13,418</u>	<u>\$ 17,131</u>	<u>\$ 92,197</u>	<u>\$ 29,750</u>
Taxes Collected	\$ 168,470	\$ 208,875	\$ 1,123,588	\$ 390,046
Less: Commissions *	<u>7,448</u>	<u>8,877</u>	<u>44,944</u>	<u>16,864</u>
Taxes Due	\$ 161,022	\$ 199,998	\$ 1,078,644	\$ 373,182
Taxes Paid	160,934	199,880	1,043,430	372,970
Refunds (Current and Prior Year)	<u>88</u>	<u>118</u>	<u>634</u>	<u>212</u>
Due Districts as of				
Completion of Fieldwork	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 34,580</u>	<u>\$ 0</u>

* Commissions:

10% on	\$	10,000
4.25% on	\$	757,391
4% on	\$	1,123,588

The accompanying notes are an integral part of the financial statement.

CLINTON COUNTY
NOTES TO FINANCIAL STATEMENT

July 3, 2004

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The former Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the former Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of July 3, 2004, the former Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of pledged securities held by the former Sheriff's agent in the former Sheriff's name.

CLINTON COUNTY
NOTES TO FINANCIAL STATEMENT
July 3, 2004
(Continued)

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2003. Property taxes were billed to finance governmental services for the year ended June 30, 2004. Liens are effective when the tax bills become delinquent. The collection period for these assessments was December 24, 2003 through July 3, 2004.

Note 4. Sheriff's 10% Add-On Fee

The former Clinton County Sheriff collected \$11,596 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the former Sheriff's office.

Note 5. Advertising Costs And Fees

The former Clinton County Sheriff collected \$2,956 of advertising costs and advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The former Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees were used to operate the former Sheriff's office.

Note 6. Litigation

- A. On July 21, 2000, Clinton County legal counsel, on behalf of the Clinton County Fiscal Court and Clinton County Taxing Districts, filed a lawsuit in Franklin Circuit Court against former Clinton County Sheriff Kay Riddle and his bonding companies, Great American Insurance Company and United Pacific Insurance Company. This lawsuit sought to recover \$58,797 owed the Clinton County Fiscal Court and Clinton County Taxing Districts per audit reports for Sheriff's Settlement - 1997 Taxes and Sheriff's Settlement - 1998 Taxes. However, as of July 3, 2004, the former Sheriff had paid the following amounts included in the \$58,797: \$227 to the Kentucky State Treasurer and \$28,807 to the Clinton County Board of Education. In August 2004, this lawsuit was "settled by a compromise agreement reached among the parties. Under the terms of that agreement, Kay Riddle and one of his bonding companies, Great American Insurance Company, paid \$74,938 to the Clinton County Fiscal Court for itself and other specified taxing districts in Clinton County. The total figure included outstanding taxes from 1997 and 1998, plus interest and penalties on those amounts through August 31, 2004. The Fiscal Court also recovered certain court costs." The Clinton County Treasurer has properly distributed the settlement proceeds to the taxing districts.
- B. On December 11, 2000, legal counsel on behalf of the former Clinton County Sheriff filed a lawsuit in Clinton Circuit Court against the former Clinton County Judge/Executive in her official capacity. On January 6, 2003, the lawsuit transferred against the new Clinton County Judge/Executive in his official capacity. This lawsuit seeks to recover \$53,814 due from the Clinton County Fiscal Court per audit report for Clinton County Sheriff - Calendar Year 1999. These funds represent the Sheriff's salary, employer's share of FICA, and unemployment insurance contributions. The suit's outcome cannot be predicted at this time.

CLINTON COUNTY
NOTES TO FINANCIAL STATEMENT
July 3, 2004
(Continued)

Note 6. Litigation (Continued)

- C. On November 5, 2004, Clinton County legal counsel, on behalf of the Clinton County Fiscal Court and Clinton County Taxing Districts, filed a lawsuit in Clinton Circuit Court against former Clinton County Sheriff Kay Riddle and his bonding company, Ohio Casualty Insurance Company. This lawsuit seeks to recover \$78,951 owed the Clinton County Fiscal Court and Clinton County Taxing Districts per audit reports for Sheriff's Settlement - 2001 Taxes and Sheriff's Settlement - 2002 Taxes. In addition, this lawsuit seeks to recover \$42,403 owed the Clinton County Fiscal Court in excess fees per the audit report for Clinton County Sheriff For The Year Ended December 31, 2002. However, in April 2004, the former Sheriff paid the following amount included in the \$78,951: \$52,464 to the Clinton County Board of Education. The suit's outcome cannot be predicted at this time.

Note 7. Deficit Balance

Based on available records, there was a \$40,420 deficit in the former Sheriff's official tax account. This deficit resulted from undeposited 2003 tax receipts of \$9,979, disallowed state penalty of \$132, and a prior year deficit of \$30,309. Cynthia Moreland, former Clinton County Sheriff's office manager, has been ordered to pay restitution of \$11,500 related to the former Sheriff's official tax account.

The accompanying schedule of excess of liabilities over assets includes net receivables of \$20,898 due from the fee account from 1999-2004. These funds primarily represent overpayments of tax commissions to the fee account and tax collections deposited to the fee account.

The prior year deficit reported as of October 10, 2003 was \$37,070. We have restated this amount to a prior year deficit of \$30,309. Receivables of \$6,761 due from the fee account for 2002 tax collections deposited to the 2003 and 2004 fee accounts maintained by the former Sheriff were not included in the prior year computation.

Note 8. Restitution

During the 2003 tax collection period, the former Sheriff notified the Kentucky State Auditor's Office that a theft had occurred in his tax account. The Kentucky State Police conducted an investigation of this matter resulting in the prosecution of Cynthia Moreland, former office manager of Clinton County Sheriff's office, for four counts of theft by unlawful taking or disposition over \$300 in the amount of \$14,066 for 2003 fee account, \$19,593 for January 1, 2004 through September 30, 2004 fee account, \$3,700 for 2003 tax collections, and \$7,800 for 2002 tax collections. On February 22, 2005, Cynthia Moreland plead guilty to these charges. The Clinton County Circuit Court ordered restitution of \$45,159 to be paid through the Circuit Court Clerk with an initial payment of \$10,000 and monthly payments of \$200 with the entire balance to be paid in full within five years.

As of August 18, 2005, the Clinton Circuit Court Clerk had collected \$11,000 from Ms. Moreland on the court ordered restitution of \$45,159 and had paid this money over to the current Clinton County Sheriff, Ricky Riddle. \$11,500 of the money should be used to pay the former Sheriff's liabilities for 2002 taxes and 2003 taxes in the amounts of \$7,800 and \$3,700, respectively.

SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS

CLINTON COUNTY
KAY RIDDLE, FORMER COUNTY SHERIFF
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS

July 3, 2004

Assets

Cash in Bank (All Tax Accounts)		\$ 87,662
Collected Receivables		29,909
Uncollected Receivables:		
Net Amount Refund Due Tax Account -		
Other Taxing Districts-		
Kentucky State Treasurer	\$ 1,373	
1999 Fee Account	6,471	
2000 Fee Account	4,138	
2001 Fee Account	1,098	
2002 Fee Account	108	
2003 Fee Account	5,354	
January 1, 2004 Through September 30, 2004 Fee Account	3,729	
Total Uncollected Receivables		<u>22,271</u>
Total Assets		<u>\$ 139,842</u>

Liabilities

Outstanding Checks		\$ 12,823
Paid Obligations		104,854
Unpaid Obligations:		
Other Taxing Districts-		
Clinton County-		
Fiscal Court	\$ 3,707	
Board of Education	44,865	
Library District	560	
Health District	6,897	
Extension District	3,283	
Soil Conservation District	1,292	
Net Amount Due To Taxing Districts	\$ 60,604	
Refunds Due Taxpayers	1,981	
Total Unpaid Obligations		<u>62,585</u>

CLINTON COUNTY
KAY RIDDLE, FORMER COUNTY SHERIFF
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS
July 3, 2004
(Continued)

Liabilities (Continued)

Total Liabilities			\$	180,262
Total Fund Deficit as of July 3, 2004			\$	(40,420)
Restitution Ordered By Court To Be Paid By Cynthia Moreland:				
2003 Tax Collections	\$	3,700		
2002 Tax Collections		7,800		11,500
Total Fund Deficit as of July 3, 2004			\$	(28,920)

COMMENTS AND RECOMMENDATIONS

CLINTON COUNTY
KAY RIDDLE, FORMER COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS

July 3, 2004

STATE LAWS AND REGULATIONS:

1) The Former Sheriff Had A \$40,420 Deficit In His Tax Account

Based upon available records there was a \$40,420 deficit in the former Sheriff's official tax account. This deficit resulted from undeposited 2003 tax receipts of \$9,979, disallowed state penalty of \$132, and a prior year deficit of \$30,309. We found tax receipts that were not deposited into the tax account in a timely manner.

Since Cynthia Moreland, former Clinton County Sheriff's office manager, has been ordered to pay restitution of \$11,500 related to the former Sheriff's official tax account, we recommend that the former Sheriff eliminate the remaining deficit of \$28,920 with a deposit of personal funds.

Former Sheriff's Response:

None.

2) The Current Sheriff Should Deposit Money Received For Restitution In Escrow Account

During the 2003 tax collection period, the former Sheriff notified the Kentucky State Auditor's Office that a theft had occurred in his tax account. The Kentucky State Police conducted an investigation of this matter resulting in the prosecution of Cynthia Moreland, former office manager of Clinton County Sheriff's office, for four counts of theft by unlawful taking or disposition over \$300 in the amount of \$14,066 for 2003 fee account, \$19,593 for January 1, 2004 through September 30, 2004 fee account, \$3,700 for 2003 tax collections, and \$7,800 for 2002 tax collections. On February 22, 2005, Cynthia Moreland plead guilty to these charges. The Clinton County Circuit Court ordered restitution of \$45,159 to be paid through the Circuit Court Clerk with an initial payment of \$10,000 and monthly payments of \$200 with the entire balance to be paid in full within five years.

As of August 18, 2005, the Clinton Circuit Court Clerk had collected \$11,000 from Ms. Moreland on the court ordered restitution of \$45,159 and had paid this money over to the current Clinton County Sheriff, Ricky Riddle. We recommend that the current Sheriff Ricky Riddle deposit this money and any future restitution into an escrow account until the money can be distributed. \$11,500 of the money should be used to pay the former Sheriff's liabilities for 2002 taxes and 2003 taxes in the amounts of \$7,800 and \$3,700, respectively.

Former Sheriff's Response:

None.

CLINTON COUNTY
 KAY RIDDLE, FORMER COUNTY SHERIFF
 COMMENTS AND RECOMMENDATIONS
 July 3, 2004
 (Continued)

STATE LAWS AND REGULATIONS: (Continued)

3) The Former Sheriff Should Not Have A Shortage In His 2003 Tax Account

KRS 522.050 states:

(1) A public servant who is entrusted with public money or property by reason of holding public office or employment, exercising the functions of a public officer or employee, or participating in performing a governmental function, is guilty of abuse of public trust when:

- (a) He or she obtains public money or property subject to a known legal obligation to make specified payment or other disposition, whether from the public money or property or its proceeds; and
- (b) He or she intentionally deals with the public money or property as his or her own and fails to make the required payment or disposition.

(2) A public servant is presumed:

- (a) To know any legal obligation relative to his or her criminal liability under this section; and
- (b) To have dealt with the public money or property as his or her own when:
 - 1. He or she fails to account upon lawful demand; or
 - 2. An audit reveals a shortage or falsification of accounts.

The former Sheriff had a shortage of \$9,979 in his 2003 tax account as of July 3, 2004, which is comprised of undeposited 2003 tax receipts.

Former Sheriff's Response:

None.

4) The Former Sheriff Should Remit \$60,604 To The Taxing Districts

The proper distribution of tax money collected by the former Sheriff requires the collection of receivables and distributing the payables to the appropriate taxing districts. The county's districts rely on the tax collections to provide services, and these services could suffer as a result of not receiving their tax collections. The following net payables (1999 tax year – 2003 tax year) should be made to the taxing districts. We recommend that the former Sheriff pay the amounts below.

Clinton County-	
Fiscal Court	\$ 3,707
Board of Education	44,865
Library District	560
Health District	6,897
Extension District	3,283
Soil Conservation District	1,292
	<hr/>
Total	<u>\$ 60,604</u>

Former Sheriff's Response:

None.

CLINTON COUNTY
KAY RIDDLE, FORMER COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS
July 3, 2004
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

5) The Former Sheriff Should Have Distributed Tax Collections By The Tenth Of Each Month

In some months, the former Sheriff did not report and distribute money collected during the preceding month by the tenth of the following month as required by KRS 134.300, 134.320, and 160.510. In other months, the former Sheriff neither reported nor paid taxes at all. The former Sheriff should have complied with statutes, which requires the reporting and distribution of each month's collections by the tenth of the following month.

Former Sheriff's Response:

None.

6) The Former Sheriff Should Have Invested Tax Collections In Interest-Bearing Account

The former Sheriff deposited funds into a noninterest-bearing account. KRS 66.480(4) requires sheriffs, at the direction of the fiscal court, to invest tax collections. The former Sheriff should have invested tax collections in an interest-bearing account.

Former Sheriff's Response:

None.

7) The Former Sheriff Should Have Deposited Funds Intact On A Daily Basis

Technical Audit Bulletin 93-002, Section 3 and Section 4, requires sheriffs to reconcile daily collections to daily deposits and to deposit funds intact on a daily basis. During 2003 tax collections, we noted that computerized tax collection reports were not printed daily and reconciled to the cash drawer. When these tax collection reports were printed, they included anywhere from a couple of days to an entire month of collections. Additionally, it was noted that deposits were not made intact on a daily basis, checks were found that had not been deposited at all, and tax bills were included on the delinquent tax list that had been paid. The former Sheriff should have printed daily tax collection reports, reconciled these collection reports to the funds collected and deposited these tax collections into the tax bank account daily.

Former Sheriff's Response:

None.

CLINTON COUNTY
KAY RIDDLE, FORMER COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS
July 3, 2004
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

8) The Former Sheriff Should Have Recorded All Tax Collections In Receipts Ledger

KRS 134.160 requires sheriffs to “keep an accurate account of all moneys received by him, showing the amount, the time when and the person from whom received, and on what account.” The former Sheriff did not record all money collected on his receipts ledger. The former Sheriff should have complied with KRS 134.160 that requires an accurate account of all moneys received.

Former Sheriff's Response:

None.

9) The Former Sheriff Should Have Prepared Tax Settlement By September 1

The former Sheriff should have made his tax settlement with the fiscal court by September 1 each year as required by KRS 134.310. The fiscal court approved the former Sheriff's settlement on October 8, 2004. KRS 134.310 states “the report of the state and local settlement shall be filed in the county clerk's office and approved by the county judge/executive no later than September 1 of each year.” The former Sheriff should have complied with this statute.

Former Sheriff's Response:

None.

10) The Former Sheriff Should Have Published Settlement

KRS 134.310(2) requires the publication of sheriff's settlement. The former Sheriff did not publish his settlement of 2003 taxes. The settlement should have been published pursuant to KRS Chapter 424.

Former Sheriff's Response:

None.

11) The Former Sheriff Should Have Transferred Any Delinquent Franchise Tax Bills To County Clerk

Sheriffs are required to transfer any delinquent franchise tax bills to the county clerk after the tax sale and settlement. We noted that the former Sheriff had not transferred the delinquent franchise tax bills to the clerk. The former Sheriff should have transferred any delinquent tax bills to the county clerk after the tax sale and settlement were completed.

Former Sheriff's Response:

None.

CLINTON COUNTY
KAY RIDDLE, FORMER COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS
July 3, 2004
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

12) The Former Sheriff Should Have Prepared Monthly Bank Reconciliations

KRS 68.210 requires sheriffs to prepare monthly bank reconciliations. Based upon our review of the former Sheriff's records, it appears that bank reconciliations were not completed monthly during the tax collection period. The former Sheriff should have prepared monthly bank reconciliations and complied with this statute.

Former Sheriff's Response:

None.

13) The Former Sheriff Should Not Have Applied Or Used Any Money Received By Him For Any Purpose Other Than That For Which The Money Was Paid Or Collected

Based upon information available to the auditors, there appears to be a deficit of \$10,111 in the former Sheriff's 2003 tax account. Since this deficit resulted from undeposited receipts, this money was not applied to the purpose intended. In addition, tax money over the amount of tax commissions was transferred to the fee account to pay fee expenses. KRS 134.170 states that "the Sheriff shall not apply or use any money received by him for any purpose other than that for which the money was paid or collected" except for investments and expenditures permitted by this statute. The former Sheriff should have balanced his books on a daily basis and on the first day of each month, so as to have shown shortages on the exact day. The former Sheriff should have paid actual tax commissions earned to the fee account on a monthly basis.

Former Sheriff's Response:

None.

14) The Former Sheriff Should Have Obtained Proper Bonds

KRS 134.250 states the sheriff shall obtain a bond in the minimum sum of ten thousand dollars (\$10,000) before he proceeds to collect the county levy, and KRS 70.020 states the sheriff shall obtain a bond in the minimum sum of ten thousand dollars (\$10,000) for the faithful performance of the duties of his office. After January 1, 2004, former Sheriff Kay Riddle was not bonded for the county levy or for the faithful performance of the duties of his office. The former Sheriff should have complied with statutes by obtaining proper bonds.

Former Sheriff's Response:

None.

CLINTON COUNTY
KAY RIDDLE, FORMER COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS
July 3, 2004
(Continued)

INTERNAL CONTROL - REPORTABLE CONDITIONS AND MATERIAL WEAKNESSES:

15) The Former Sheriff's Office Lacked Adequate Segregation Of Duties

The former Sheriff's office had a lack of segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions the former official had limited options for establishing an adequate segregation of duties. The former Sheriff could have implemented compensating controls to offset this internal control weakness.

Former Sheriff's Response:

None.

16) The Former Sheriff Should Have Improved Recordkeeping Procedures

Based upon the review of the former Sheriff's records the following are several areas that were noted as having poor recordkeeping. The former Sheriff's office should have improved these areas to properly report receipts and disbursements.

- Tax collections were not documented and accounted for properly. Unopened mail with tax collections were found in drawers in the former Sheriff's office by a new employee of the former Sheriff. Tax collections were not recorded on the receipts ledger or distributed properly. Not all tax collections were deposited into the bank and tax collections for the taxing districts were not always paid to the taxing districts.
- Reconciliations of monthly tax collections to the bank statement and respective monthly tax distribution were not always performed. By reconciling these amounts the former Sheriff could have ensured that all tax collected had been reported and paid to the taxing districts.
- A list of returned checks was not maintained. The former Sheriff's office should have kept a list of returned checks noting the date of redeposit. In addition, redeposits of returned checks should have been made as separate deposits marking the deposit slip as a redeposit of a returned check and listing the name of the party. Any uncollected returned checks should have resulted in the corresponding tax bill being included on the delinquent tax list.

Former Sheriff's Response:

None.

17) The Former Sheriff Should Have Had Computer Disaster Recovery/Contingency Plans

The former Sheriff's office did not have a contingency plan for alternative processing of tax collections in the event of loss or interruption of the EDP function. The former Sheriff's office should have had a contingency plan developed for alternative processing in the event of loss or interruption of the EDP function.

Former Sheriff's Response:

None.

CLINTON COUNTY
 KAY RIDDLE, FORMER COUNTY SHERIFF
 COMMENTS AND RECOMMENDATIONS
 July 3, 2004
 (Continued)

INTERNAL CONTROL - REPORTABLE CONDITIONS AND MATERIAL WEAKNESSES:
 (Continued)

18) The Person Operating The Computer System Should Have Had Adequate Training

The person operating the computer system should have had adequate training in the use of the system and key applications. The former Sheriff's office should have provided training for both general computer operations and software packages for current and new computer operators. This training should have included initial as well as refresher courses.

Former Sheriff's Response:

None.

PRIOR YEAR:

In the prior year audit report, we made the following comments and recommendations, which have not been corrected:

- The Sheriff Should Eliminate The \$37,070 Deficit In His Tax Account
- The Sheriff Should Not Have A Shortage In His 2002 Tax Account
- The Sheriff Should Remit \$108,251 To The Taxing Districts
- The Sheriff Should Distribute Tax Collections By The Tenth Of Each Month
- The Sheriff Should Distribute Interest Earned On Tax Collections Monthly
- The Sheriff Should Deposit Funds Intact On A Daily Basis
- The Sheriff Should Record All Tax Collections On Receipts Ledger
- The Sheriff Should Prepare Tax Settlement By September 1
- The Sheriff Should Publish Settlement
- The Sheriff Should Transfer Any Delinquent Franchise Tax Bills To County Clerk
- The Sheriff Should Prepare Monthly Bank Reconciliations
- The Sheriff Shall Not Apply Or Use Any Money Received By Him For Any Purpose Other Than That For Which The Money Was Paid Or Collected
- Lacks Adequate Segregation Of Duties
- The Sheriff Should Improve Recordkeeping Procedures
- The Sheriff Should Have Computer Disaster Recovery/Contingency Plans
- The Person Operating The Computer System Should Have Adequate Training

In the prior year audit report, we made the following comments and recommendations, which have been corrected:

- The Sheriff Should Conduct Sale Of Delinquent Tax Bills By April 30 And File All Certificates Of Delinquency In The Clerk's Office Immediately Upon Completion Of The Tax Sale
- The Sheriff Should Pay Advertising Costs To The Fiscal Court

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Donnie McWhorter, Clinton County Judge/Executive
Honorable Kay Riddle, Former Clinton County Sheriff
Honorable Ricky Riddle, Clinton County Sheriff
Members of the Clinton County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Clinton County Sheriff's Settlement - 2003 Taxes as of July 3, 2004, and have issued our report thereon dated August 18, 2005. The former Sheriff's financial statement was prepared in accordance with a basis of accounting other than generally accepted accounting principles. The opinion was qualified because we were not provided with management representations and legal representations as required by auditing standards generally accepted in the United States of America. Except as discussed in the prior sentences, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Clinton County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the former Clinton County Sheriff's office's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. Reportable conditions are described in the accompanying comments and recommendations.

- The Former Sheriff's Office Lacked Adequate Segregation Of Duties
- The Former Sheriff Should Have Improved Recordkeeping Procedures
- The Former Sheriff Should Have Had Computer Disaster Recovery/Contingency Plans
- The Person Operating The Computer System Should Have Had Adequate Training

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe all of the reportable conditions described above are material weaknesses.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Clinton County Sheriff's Settlement - 2003 Taxes as of July 3, 2004, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Former Sheriff Had A \$40,420 Deficit In His Tax Account
- The Former Sheriff Should Not Have A Shortage In His 2003 Tax Account
- The Former Sheriff Should Remit \$60,604 To The Taxing Districts
- The Former Sheriff Should Have Distributed Tax Collections By The Tenth Of Each Month
- The Former Sheriff Should Have Invested Tax Collections In Interest-Bearing Account
- The Former Sheriff Should Have Deposited Funds Intact On A Daily Basis
- The Former Sheriff Should Have Recorded All Tax Collections In Receipts Ledger
- The Former Sheriff Should Have Prepared Tax Settlement By September 1
- The Former Sheriff Should Have Published Settlement
- The Former Sheriff Should Have Transferred Any Delinquent Franchise Tax Bills To County Clerk
- The Former Sheriff Should Have Prepared Monthly Bank Reconciliations
- The Former Sheriff Should Not Have Applied Or Used Any Money Received By Him For Any Purpose Other Than That For Which The Money Was Paid Or Collected
- The Former Sheriff Should Have Obtained Proper Bonds

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
August 18, 2005

